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C O N F I D E N T I A L SECTION 01 OF 03 BRATISLAVA 000195

SIPDIS

STATE FOR EUR/CE L. LOCHMAN AND K. ERTAS

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TAGS: [KCOR](#) [PGOV](#) [SENV](#) [PREL](#) [ECON](#) [LO](#)
SUBJECT: SLOVAKIA: CORRUPTION IN SALE OF CO2 PERMITS

REF: A. BRATISLAVA 191
[1](#)B. BRATISLAVA 118
[1](#)C. 08 BRATISLAVA 546
[1](#)D. BRATISLAVA 94

Classified By: CDA Keith A. Eddins, for reasons 1.4 b and d

SUMMARY

[1](#)1. (C) In complaints to major media outlets, SDKU Deputy Chairman and former Finance Minister Ivan Miklos and SDKU MP Pavol Freso have accused the Ministry of Environment (MinEnv) of underselling 10-15 million tons in carbon emissions permits, resulting in losses of EUR 33-60 million. Assigned to Slovakia under the EU emissions trading scheme (ETS), the opposition claims these excess assigned amount units (AAU) were sold for EUR 6 per ton in the waning months of 2008, well below the going market rate at the time of EUR 10 or more. The buyer, a U.S.-registered company known as Interblue Group, appears to be a hastily-created shell company that did not require the GOS to earmark the proceeds for green investment schemes (GIS) as stipulated by the Kyoto Protocol. Under growing pressure from the EC on another opaque tender at the Construction Ministry (ref A), PM Fico requested that Environment Minister Jan Chrbet make the contract public, and MinEnv said the contract will be published once permission is obtained from Interblue. Led by Slovak National Party (SNS) ministers since 2006, the Ministry of Environment has a history of participating in suspicious deals and politically-motivated actions. Discussions with the opposition and the source of press articles point to SNS functionaries as the critical dealmakers at the Ministry. END SUMMARY.

EUR 33-60 MILLION LOST

[1](#)2. (C) In front-page articles over the course of several weeks, opposition MPs Ivan Miklos and Pavol Freso have accused the GOS of corruption and a lack of transparency in the sale of carbon emissions permits. Highlighting similar sales of higher value in the Czech Republic and Hungary, the opposition conservatively estimates the Ministry of Environment undersold 10 million tons of assigned amount unit (AAU) carbon permits in late 2008 to a U.S.-registered shell company known as Interblue Group. Given the market price for carbon of EUR 10 or higher at the time of sale, the opposition believes the deal cost the GOS at least EUR 33.19 million in potential revenue. Miklos and Freso argue the losses could run as high as EUR 60 million if the number of AAUs sold was closer to 15 million.

ANOTHER "AMERICAN" COMPANY IMPLICATED

13. (C) The Ministry of Environment maintains Interblue Group was selected as the buyer because it did not place restrictions on the use of the proceeds, including stipulations requiring green investments. Instead, the Ministry is alleged to have placed proceeds from the sale in the Environmental Fund, a notoriously opaque account alleged to be a slush fund for SNS officials. Former Environment Minister Jaroslav Izak was forced to resign on July 22 because of questionable subsidy payments from the fund to political supporters and family members of associates. (Interestingly, SDKU MP Fresno argued that one of the reasons Izak was forced out was his unwillingness to quickly conclude the Interblue deal; he is said to have argued for a more open tender. Other sources dispute the claim but concede the deal was in the works before Izak's dismissal. Whatever the case, it does appear the deal was directed at a level above either Izak or his successor, Jan Chrbet.) To blunt criticism about the use of the Interblue proceeds, PM Fico recently called for an investment of EUR 73 million in thermal insulation projects for housing using funds from the sale of CO2 permits. Presumably, these projects would still be funded from the Environmental Fund, raising questions of how transparent the project selection process would be.

14. (C) As recorded in the Washington State business license registry, Interblue Group LLC was incorporated on June 12, 2008, only months before the alleged sale occurred. Jana Luetken and Hans Grob are listed as governing persons with Swiss addresses. The company's registering agent is listed as Apex Corporate Services LLC, also of Washington State,

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which in turn has listed as a governing person a U.S. national with a Slovak surname. The same person's name and/or addresses appear on the registrations of over 250 businesses in the U.S. Interblue Group appears to have no business activities or experience with the Slovak Government other than the EUR 60 million carbon trade. We have forwarded the pertinent information on the U.S. persons and entities to our Legal Attache in Prague for possible further investigation. (Comment: Per ref B, the Environment Ministry also appears to have been complicit in the fiction regarding another so-called American company, Westminster Brothers, in the Pezinok dump scandal. End Comment.)

AT MINENV, FORMER DEFENSE OFFICIALS RUN THE SHOW

15. (C) Given the change in Environment Ministers, the point of continuity in the Ministry appears to be two SNS functionaries with very little environmental experience, but long records in another area of suspicious deal-making in Slovakia: defense contracting (ref C). Prior to assuming his position as Director of the Air Protection and Climate Change Department, SNS member Peter Solcansky was forced to quit his position as Chief of the Military Intelligence Service amid allegations of improper approval of defense contracts. Pavol Tehlar, the General Director of the Environmental Quality Division, was once rumored to be Izak's replacement even though he had no experience with environmental issues. Tehlar's previous employer was state-owned Letecke Opravovne Trencin (Aircraft Repair Company Trencin), a major defense contractor.

16. (C) The same two people were involved in what appears to have been the corrupt assignment of carbon allocations to the cement industry during the National Allocation Plan for 2008-2012 (NAP II). In that case, the MinEnv assigned carbon allocations to the four cement producers significantly out of sync with production capacity. One of the four, the Swiss company Holcim, reported to us that shortly after it was assigned 75,000 tons short of its requirement, it was offered that tonnage in exchange for cash. Holcim refused the offer

and filed a complaint with the European Commission, where a case is reportedly now under investigation with the DG for Competition. While Holcim was shorted in carbon allocations, two Slovak competitors were given more than they can use, which they can sell as excess.

17. (C) The appointment of two individuals with little environmental experience to critical policy-making roles reflects the government's general approach -- and more specifically that of SNS -- to this Ministry. Upon securing the MinEnv in the coalition agreement, SNS proceeded to gut the Ministry, replacing technical experts with political supporters. To create enough space, SNS replaced lower level bureaucrats and even park rangers. All but two of 28 office directors were forced to resign, an unprecedented level according to most observers (ref D). Technical incompetence and lack of interest in environmental issues at the director level have been an impediment to EmbOffs in dealing with the Ministry.

COMMENT: GOVERNMENT COMFORTABLE WITH STATUS QUO

18. (C) The Ministry of Environment represents one of the more egregious examples of a system of patronage, opacity, and outright corruption that has come to characterize the Fico Government. Under the leadership of Jan Slota, SNS reputedly sought out the MinEnv in the coalition agreement because of the lucrative patronage opportunities rather than any real interest in the substance of the Ministry's issues. Although some of the instances of corruption in the MinEnv -- including the InterBlue, Pezinok, and Holcim cases -- have been reported in some detail in the press, the GoS has taken little action. Recognizing the growing criticism on the Interblue case -- and in light of the EC's unequivocal instructions on the Construction Ministry tender (ref A) -- the PM requested that Environment Minister Chrbet make the contract public and has pledged to fire him if any legal wrongdoing is discovered (Chrbet's spokesperson said the contract will be published once permission is obtained from Interblue). In the wake of the resignation of SNS Construction Minister Janusek and several other pending cases, it appears the European Commission's Directorate General for Competition is both willing and able to pressure the government to take action. Potential EC action cannot,

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however, substitute for a robust political opposition and an informed citizenry that can hold the GoS accountable. In the absence of any palpable pressure for accountability, the GoS seems comfortable ignoring most cases of malfeasance and responding minimally only when forced to do so.
EDDINS